



May 16, 2012

VIA ELECTRONIC FILING

Jocelyn G. Boyd, Esquire
Chief Clerk & Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, South Carolina 29210

RE: Application Regarding the Acquisition of Progress Energy Incorporated by Duke Energy Corporation and Merger of Progress Energy Carolinas, Incorporated and Duke Energy Carolinas, LLC - Docket No. 2011-158-E (See also Docket No. 2011-68-E)

Dear Mrs. Boyd:

The purpose of this letter is to advise the Public Service Commission of South Carolina (the "Commission") of certain commitments Duke Energy Carolinas, LLC ("DEC") and Progress Energy Carolinas, Inc. ("PEC"), (collectively referred to in this letter as "the Utilities"), have made to the South Carolina Office of Regulatory Staff ("ORS") with regard to the Revised Market Power Mitigation Proposal ("Revised Mitigation Proposal") filed with the Federal Energy Regulatory Commission ("FERC") by Progress Energy, Inc. ("Progress") and Duke Energy Corporation ("Duke") on March 26, 2012. The Revised Market Power Mitigation Proposal was filed by Duke and Progress pursuant to an order issued by the FERC on December 14, 2011, which rejected a previous mitigation proposal filed by Duke and Progress.

The Revised Mitigation Proposal has two elements: 1) an interim mitigation mechanism that involves the sale of capacity ("Mitigation Capacity") and energy to new third-party wholesale market participants ("Interim Mitigation Sales"); and 2) a permanent mitigation proposal that involves the construction of new transmission facilities and a commitment to run certain generating units in a specified manner ("Permanent Transmission Mitigation"). As proposed, the Interim Mitigation Sales will terminate once all of the new proposed transmission facilities have been constructed and placed into service. These two (2) market power mitigation mechanisms create state retail cost recovery issues. To address these issues the Utilities have made the following commitments to the ORS to hold their South Carolina retail ratepayers harmless:

A. Interim Mitigation Sales

1. The costs of the Mitigation Capacity will be allocated to the Utilities' wholesale jurisdiction. These costs shall be calculated based upon the revenue requirement associated with a utility-specific proxy for the capacity costs of the generating facilities expected to be on the margin during the months and hours the Interim Mitigation Sales will be made, which are assumed to be between July 1, 2012 through May 31, 2015.
2. DEC and PEC will each develop a decrement rider to their respective South Carolina retail rates that reflects the Mitigation Capacity costs described in subsection (1) above, calculated as follows:
 - a) The Mitigation Capacity MWs under contract for each period shall be increased to reflect reserve margins contained in the Utilities' 2011 filed Integrated Resource Plans.
 - b) The Mitigation Capacity MWs, including the associated reserve margins, shall be multiplied by the number of hours that the capacity is contracted for and the hourly capacity cost per MW based upon the agreed upon utility-specific proxy.
 - c) These capacity costs shall include a rate of return on production plant, step-up transformer facilities, general plant, and associated rate base items. Additional costs to be included are fixed O&M (which include an appropriate allocation of Administrative and General ("A&G") costs, depreciation expense, and general taxes. The total system costs of Mitigation Capacity to be allocated away from retail are \$43,458,315 for DEC and \$21,194,759¹ for PEC.
 - d) Such capacity costs shall be allocated between and among jurisdictions using the production plant allocation methodology approved in DEC's and PEC's most recent general rate cases. For DEC and PEC, the current Commission-approved methodology is Summer CP. Use of these particular allocation methodologies shall not be considered as precedent in any future cases, including general rate cases.
 - e) The decrement shall be determined by dividing each utility's Mitigation Capacity total projected South Carolina retail capacity costs for July 1, 2012, through May 31, 2015, by each utility's projected South Carolina retail kilowatt-hour sales for the same period in accordance with Appendix A.

¹ The DEC and PEC South Carolina retail allocable portion would be \$10,316,657 for DEC and \$2,283,121 for PEC.

3. The Utilities shall file such decrement riders for approval with the Commission and provide a copy to ORS within 30 days after the Merger closes. Upon approval by the Commission, the decrement riders shall be fixed and remain in effect and without any future true-ups until the date the Interim Mitigation Sales are terminated plus the number of days between when such sales began and the time the decrement riders became effective. Provided, however, that if a portion of the interim sales terminate, the riders shall be reduced in proportion to the terminated sales. Appropriate decrement riders will continue in effect until such time as the Utilities are relieved of their respective obligations to make the Interim Mitigation Sales.
4. Interim Mitigation Sales shall be treated as a separate category of New Non-Native Load Sales and shall be deemed to have been satisfied by the highest energy costs assigned to New Non-Native Load Sales.
5. The Utilities shall not seek to recover from their South Carolina retail customers any of the non-fuel variable operating and maintenance costs associated with the Interim Mitigation Sales.
6. The Utilities shall not seek to recover from their South Carolina retail customers any revenue shortfalls resulting from, or any costs associated with, the Interim Mitigation Sales, including but not limited to any negative capacity payments, any revenue deficiency resulting from energy revenues being less than the associated costs and any payment of liquidated damages.

B. Permanent Transmission Mitigation

DEC and PEC will not assign costs associated with Permanent Transmission Mitigation projects into their wholesale transmission rates until the later of the expiration of the five-year FERC hold harmless period or such time as the Utilities have received regulatory approval to assign those costs to their retail native loads, effective on the date they are first permitted to begin recovering those costs.

1. The Utilities shall not seek recovery in their respective South Carolina retail rates of any of the costs associated with the Permanent Transmission Mitigation projects except as follows:
 - a) The Utilities may request recovery of costs associated with a Permanent Transmission Mitigation project in their respective South Carolina retail rates upon the expiration of five (5) years following the close of the merger, and any such request shall include a showing that the requesting utility also intends to pursue recovery from its wholesale customers effective on the date it is permitted to begin recovery of such costs in its South Carolina retail rates.

- b) Any request by DEC or PEC to recover the costs associated with a Permanent Transmission Mitigation project in its South Carolina retail rates must be supported by evidence sufficient to show that, absent the merger and the resulting mitigation requirement, (i) the project is needed to provide adequate and reliable retail service, and (ii) at the time the request is made, the construction of the project and the incurrence of the associated costs would have been reasonable and prudent.
 - c) If the requisite showing has been made pursuant to (a) and (b) above, the Utilities may seek inclusion of only the net depreciated cost of the Permanent Transmission Mitigation projects at the time of the request, and shall not request any deferral of any costs associated with the projects for ratemaking purposes.
 - d) If subsequent to the inclusion of the costs associated with a Permanent Transmission Mitigation project in South Carolina retail rates, DEC or PEC is not successful in incorporating the correct jurisdictional share of those costs into the cost-based formula rate prescribed by its FERC approved Open Access Transmission Tariffs and, therefore, does not recover all of such costs from its wholesale or firm transmission-only customers, then the corresponding proportionate share of such costs that have been approved for inclusion in retail rates shall be removed and refunds made accordingly (e.g., if 20% of the costs allocated to wholesale are not recovered, then 20% of the portion allocated to retail shall be excluded and refunded).
2. Paragraph B.1 above does not apply to the Greenville-Kinston-DuPont transmission line project. PEC may seek to include the costs associated with this line in its South Carolina retail rates any time after the line is placed in service, in accordance with normal ratemaking practice requirements.
3. The Utilities shall not recover from their South Carolina retail ratepayers any costs associated with running their generating systems on a non-economic basis as a result of the FERC Permanent Transmission Mitigation commitment to run the Roxboro and Mayo units at full output when necessary to push back against AEP/PJM power flows into PEC in order to achieve improvement in firm import capability from PJM into PEC-East. PEC, through special operating procedures² maintained at its Energy Control Center ("ECC"), shall (a) document each instance in which any of the Roxboro and Mayo units operate out of merit dispatch order and (b) specify each instance during which the approved procedure for implementing the Permanent Transmission

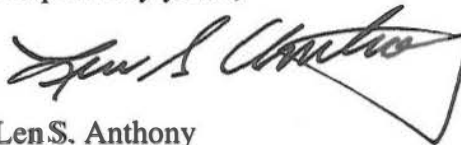
² The ECC will monitor the AEP Danville/East Danville transmission line that interconnects with PEC's system north of the Roxboro and Mayo plants, and, if line-overloading issues associated with power flows from PJM into PEC are found at a time that the Roxboro and Mayo units are not operating at full power output, the ECC will direct both the Roxboro and Mayo plants to increase their output to full power, per the special operating procedures for this type of situation.

Mitigation commitment was used. For each use of the procedure, the following information shall be included by PEC in its monthly fuel report:

- the date, exact times, and duration;
 - a detailed description of the order of dispatch under the joint dispatch agreement that would have occurred if the procedure had not been used;
 - the incremental difference in fuel, fuel-related, and variable O&M costs, on a joint dispatch basis; and
 - the effect on joint dispatch savings to be split between DEC and PEC.
- C. DEC and PEC re-affirm their commitment and guarantee contained in the Utilities' December 13, 2011 letter filed with the Commission in this same docket to provide their retail South Carolina customers pro rata benefits equivalent to those approved by the North Carolina Utilities Commission in its order ruling upon Duke's and Progress' merger application.
- D. The commitments described in this letter are contingent upon the FERC approving the Revised Mitigation Proposal in Docket No. EC11-60-004; the Joint Dispatch Agreement between DEC and PEC, re-filed with the FERC on March 26, 2012, in Docket Nos. ER12-1338-000, ER12-1347-000, and ER11-3306-000; and the Joint Open Access Transmission Tariff, as re-filed in Docket Nos. ER12-1343-000, ER12-1345-000, ER12-1346-000, and ER11-3307-000, all without material condition or change.

By copy of this letter we are serving the same on all parties of record. Should you have any questions, please do not hesitate to contact me.

Respectfully yours,



Len S. Anthony
General Counsel
Progress Energy Carolinas, Inc.

LSA:mhm

cc: Parties of Record

STAREQ2536

BEFORE

THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2011-158-E

In the Matter of)
Application of Duke Energy Carolinas, LLC)
and Progress Energy Carolinas, Inc. to)
Engage in a Business Combination)
Transaction)

CERTIFICATE OF SERVICE

I, Len S. Anthony, hereby certify that Duke Energy Carolinas, LLC's and Progress Energy Carolinas, Inc.'s commitments related to the Revised Market Power Mitigation Proposal have been served on all parties of record by e-mail addressed as follows:

mkl@bbrslaw.com; gas@bbrslaw.com; james.horwood@spiegelmc.com;
pwilborn@dawlegal.com; kghartey-tagoe@duke-energy.com; selliot@elliottlaw.us;
robsmith@mvalaw.com; cedwards@regstaff.sc.gov; nsedwar@regstaff.sc.gov;
fellerbe@robinsonlaw.com; newman@shermardunn.com; chad.burgess@scana.com;
matthew.gissendanner@scana.com; Bholman@selcsc.org; chris.koon@ecsc.org;
mike.couick@ecsc.org; jtiencken@tienckenlaw.com; gthompson@selcnc.org;
peter.hopkins@spiegelmc.com; pablo.nuesch@spiegelmc.com; pconway@tienckenlaw.com;
jtauber@selcdc.org;



Len S. Anthony
General Counsel

DUKE ENERGY CAROLINAS AND PROGRESS ENERGY CAROLINAS

**Revenue Requirement of FERC Mitigation Capacity
Summary of 35-Month SC Retail Decrement Rider**

Effective for Service Rendered July 1, 2012 through May 31, 2015

		Duke Energy Carolinas	Progress Energy Carolinas
SC Retail Mitigation Capacity Allocation	1/	(\$10,316,656)	(\$2,283,121)
Forecast SC Retail kWh Sales	2/	63,634,708,399	19,100,771,698
Decrement \$/kWh Sales		(\$0.000162)	(\$0.000120)
Billing Adj. - SC GRT and SCPSC Utility Assessment Fee		1.004536	1.003010
Proposed SC Retail Rider \$/kWh		(\$0.000163)	(\$0.00012)

Footnotes:

1/ Based on Stipulated Methodology and 2010 Cost of Service Study for DEC, 2011 Cost of Service Study for PEC

2/ Based on September 2011 IRP Filing